

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-94-3
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**ORDER ALLOWING INCENTIVE GAS SUPPLY PROCUREMENT PLAN AWARD  
AND GRANTING EXTENSION OF PLAN**

(Issued November 29, 2004)

On August 31, 2004, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) its six-month report of the results of the Incentive Gas Supply Procurement Plan (IGSPP). The filing was identified as Docket No. RPU-94-3. The six-month period included in the report is November 2003 through April 2004. Depending upon the results, MidAmerican may earn a share of certain gas supply cost savings, which would be reflected in the purchased gas adjustment factor through April 2005.

On September 17, 2004, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a conditional objection to allow additional time to review the report. On October 20, 2004, the Board issued an order docketing the filing for further review. On November 16, 2004, Consumer Advocate withdrew its objection.

The IGSPP was originally approved in a "Final Decision and Order" issued May 19, 1995, and an "Order Granting Rehearing In Part And Denying Rehearing In

Part" issued June 30, 1995. The plan as originally approved consisted of four primary components in which MidAmerican's actual gas supply costs were measured against market-based benchmarks. The components are natural gas commodity costs, pipeline reservation costs, storage costs, and transportation costs. The Board has extended the IGSP several times with the last extension continuing the plan until October 31, 2004.

The plan is designed to share savings from efficient gas purchasing practices between MidAmerican's shareholders and its ratepayers. To continue to earn a share of the savings, MidAmerican must keep negotiating more favorable rates in relation to a benchmark. Thus, the plan operates as an incentive for MidAmerican to continually improve its purchasing methods and practices. The results filed by MidAmerican on August 31, 2004, show that costs were below the benchmark. Based upon these results, MidAmerican is entitled to a share of the savings, which will be reflected as an IGSP factor in the purchased gas adjustment factor from December 2004 through April 2005.

On November 3, 2004, MidAmerican filed a request to continue the IGSP until October 31, 2006. MidAmerican represented in the request that it has reached agreement on the extension of the IGSP with Consumer Advocate. MidAmerican indicates that it has agreed to administer the IGSP pursuant to the following terms and conditions:

1. Continue the IGSP for two years through October 31, 2006.

2. For the entire two-year extension period, the reservation charges component of the reference price will utilize the actual interstate pipeline transportation service contracts rates in effect on October 31, 2003, with the exception of those contracts, or those portions of such contracts, that expire after October 31, 2003, but prior to October 31, 2006. The reference price specifically associated with interstate pipeline transportation service contracts, or portions of such contracts, that expire after October 31, 2003, but before October 31, 2006, will be adjusted to reflect an increase or decrease in contract rates resulting from (i) any interim rates implemented by a pipeline during an interim period of any pending proceeding and (ii) final rates implemented by the pipeline as a result of settlement or litigation.

3. Subject to the provisions of subparagraph (4) below, the following dollar cap shall be applied to MidAmerican's earnings during the two-year IGSP extension period:

(a) A fixed dollar cap of \$1.5 million for the first year of the extension and \$1.25 million for the second year of the extension on sharing below 0.25 percent under the reference price; and

(b) A fixed dollar cap equal to \$1.5 million for the first year of the extension and \$1.25 million for the second year of the extension on sharing above 1.25 percent over the reference table.

4. The amount of the award that MidAmerican is eligible to recover shall be capped at a maximum level of \$1.5 million for the first year of the IGSP extension and \$1.25 million for the second year of the IGSP extension. Should penalties be incurred by MidAmerican, the maximum amount of penalty MidAmerican shall be required to absorb shall also be \$1.5 million for the first year of the IGSP extension and \$1.25 million for the second year of the IGSP extension. The maximum amount of award or penalty may be reached during the first six-month period of each year of the IGSP extension and no additional amount shall be recovered from customers or absorbed by MidAmerican during the second six-month period of each year of the two-year IGSP extension. All award or penalty amounts for each respective six-month period of the two-year IGSP extension are to be calculated by using the existing six-month period limitation of one-half of three percent (3%) of the reference price.

The achievement of an award or the imposition of a penalty during the first six-month period of each year of the two-year IGSP extension does not preclude the imposition of a penalty or achievement of an award during the second six-month period of each year of the IGSP extension and offsetting of penalties or award between six-month periods of each year shall not be permitted.

5. All other provisions of the IGSP shall remain unchanged.

MidAmerican stated that the IGSP has provided a total savings of \$84 million since it began in 1995. Through the IGSP, MidAmerican customers have realized a savings, relative to the reference price, of \$58.4 million, and MidAmerican shareholders have earned \$25.6 million under the IGSP. MidAmerican states that these results show that the program has produced substantial benefits to MidAmerican's customers.

In the order extending the IGSP to October 31, 2004, the Board expressed concern whether negotiations between MidAmerican and Northern Natural Gas Company (Northern) would be at arm's length after they became affiliates. Northern is an affiliate of MidAmerican and it is also one of the interstate pipelines transporting natural gas to MidAmerican and rates paid by MidAmerican to Northern make up a significant part of the IGSP calculation. MidAmerican states that it has been providing Consumer Advocate with monthly information concerning communications and transactions between MidAmerican and Northern. No objection or complaint has been filed.

MidAmerican suggests that the IGSP should be allowed to continue based upon the extensive favorable history of the IGSP coupled with the administration agreed to with Consumer Advocate. MidAmerican asserts that the terms of the settlement ensure that MidAmerican has an incentive to continue to improve its performance and provide PGA customers with savings.

The Board will grant the extension of the IGSP for two years as requested. Under the terms of the settlement, MidAmerican will only be rewarded for newly negotiated transportation capacity contracts and Consumer Advocate will continue to monitor MidAmerican's contracts with Northern. Under these conditions, the IGSP should continue to benefit MidAmerican customers.

**IT IS THEREFORE ORDERED:**

1. MidAmerican Energy Company is allowed to add the IGSP factor from its August 31, 2004, filing to its purchased gas adjustment filings for December 2004 through April 2005.

2. The Incentive Gas Supply Procurement Plan is extended from October 31, 2004, to October 31, 2006, subject to the agreement between MidAmerican Energy Company and the Consumer Advocate Division of the Department of Justice filed November 3, 2004.

**UTILITIES BOARD**

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 29<sup>th</sup> day of November, 2004.